

Wharton

UNIVERSITY OF PENNSYLVANIA

FNCE 731: International Corporate Finance

Spring 2011

Preliminary – Subject to Change

Professor Karen Lewis Office Hours

2446 SH-DH Monday: 4:30 – 6:00

Course Syllabus

Goal of Course:

The goal of the course is to address the special problems encountered by the international financial officer, specifically:

- Cash flows in multiple currencies and the associated problems related to nominal contracts;
- Exchange rates misalignment relative to local costs and the associated problems related to competitiveness;
- Calculating the costs of capital internationally in the presence of partially segmented capital markets;
- Repatriating cash flows from multiple tax jurisdictions and the associated problems of minimizing the tax burden.

These four issues will be addressed in this course with the objective of preparing the student for careers in corporations with large operations abroad or for careers in the investment banks or consulting firms that advise these corporations.

Course mechanics: The course will be in lecture format along with case discussions approximately every week.

Workload: The readings and cases are complex and require a lot of work.

Grading: To arrive at a final course grade, a numerical weighted average will be computed for four components: (a) 10 group assignments; (b) 1 midterm exam; (c) 1 individual assignment; and (d) course participation. Of these deliverables, you may drop **two** group assignments.

The numerical weighted average will be calculated as follows:

Group Assignments (8 total): 40% => 5% per case

Individual Assignment : 25%

Midterm : 30%

Group Participation (Based upon "Salary" from Group Members): 5%

Details on these components are given below.

Assignments - There are 11 assignments, typically in the form of business cases. As with actual practice in business, all of the cases are written to focus on issues, not

answers, and as such are ambiguous. There are often no “right answers” to cases, just good arguments and bad arguments for taking particular actions or decisions. There is sometimes a limited amount of quantitative information on which to make a decision and thus it is often impossible to compute a precise numerical answer, as might be done in other finance courses.

Ten of the assignments are to be done in a group while one of the assignments is to be done individually. You may drop one of your group assignments. If you hand all the group assignments in, the lowest group grade will be dropped.

Assignment	Group or Individual	Due Date	Download Site	Submission Button
1. GE Toys	Group	Jan 31 Simulation Feb 1 Write-up	IEMAV #1	IEMAV #1
2. Livingston Chemicals	Group	Feb 7 Simulation Feb 8 Write-up	IEMAV #2	IEMAV #2
3. Expose' Part 1(Jaguar)	Group	Feb 14 Simulation Feb 15 Write-up	IEMAV #4	IEMAV #4
4. Expose' Part 2 (Tektronix)	Group	Feb 21 Simulation Feb 22 Write-up	IEMAV #5	IEMAV #5
5. Midterm	Individual	Mar 1	None	None
6. Royal Dutch Shell	Group	Mar 15 Write-up	Webcafe'	IEMAV #6
7. Foreign Company Analysis	Group	Mar 21 Spreadsheet Mar 22 Presentation slides	IEMAV #	IEMAV #7
8. Hozho	Group	Mar 29	Webcafe'	IEMAV #8
9. Globalizing the Cost of Capital at AES	Group	Apr 5	Webcafe'	IEMAV #9
10. LaFarge	Individual	Apr 12	Webcafe'	IEMAV #10
11. Petrobras	Group	Apr 19	Webcafe'	IEMAV #11

12. Alba's Potline	Group	Apr 26	Webcafe'	IEMAV #12
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Each assignment requires a write-up that explains your answers. All of the assignments also include a computer submission either in the form of a simulation or a spreadsheet which you will prepare. The table details the submission due dates. When specified as "both," the computer simulation deadline is the same as the write-up deadline.

Group Participation - Students will be required to form "groups" for each group assignment. Each group will have a fixed "salary" which can be allocated across students depending upon who the group feels has made the most contribution. Students with a higher "salary" assigned by their group will be awarded a higher course participation grade.

Groups for Assignment Submissions:

For each of the cases and exercises, the students will form groups with a **maximum size of five**. Sign up for groups must be done on-line via the IEMAV (International Exposure Management and Valuation) site. A link to this site is available under "Link" on Webcafe'.

Reading material: There are two bulkpacks at Wharton Reprographics.

- a. Required bulkpack - includes the cases is available at Wharton Reprographics.
- b. Optional bulkpack – includes all other reading material. This material is also available on Webcafe'. Therefore, this optional bulkpack is for students who prefer to purchase a copy rather than printing it out. Ask for the "pre-pay" through Reprographics if you want this bulkpack.

Prerequisites: A thorough knowledge of FNCE 601 is assumed.

Re-grade procedure:

1. Please write a brief explanation of why you believe a question on your assignment was improperly graded. *Send an email to me with this explanation.* The assignment will be reviewed by the TAs and me. I will then inform you about whether the grade is has been changed and the reason why.
2. Requests for regrades may be submitted **only up to two weeks** after the graded assignment or exam has been returned to your mailfolder.
3. Please note that regrades sometimes result in lowering the grade when it appears that some credits were not deserved after closer re inspection.

Course Topics by Class

Note: For Class numbers, please see class calendar.

Part 1: International Cash Flow Risk and Exchange Rate Hedging

1. Overview: Exchange Rates and Cash Flows

Readings: My Notes (MN), Section I,

2&3. Interest Rate Parity and Forward Rates

Readings: MN, Section II

4. Standard Hedging with Forward Exchange

Readings: MN, Section III

5. Hedging I: Standard Hedging with Options

Readings: MN, Section IV

Assignment 1: IEMAV # 1 Computer Decision Submission

6. Assignment 1: GE Toys Case Discussion

7. Hedging II. Multi-year cash flows

Readings: MN, Section V

Assignment 2: IEMAV # 2 Computer Decision Submission

8. Assignment 2: Livingston Chemical Case Discussion

9. Real Exchange Rate Risk

Readings: MN, Section VII

Assignment 3: Expose' #1 Computer Decision Submission

10. Assignment 3: Expose'#1 (Jaguar) Case Discussion

11. Foreign Exchange Exposure

Readings: MN, Section VIII

Assignment 4: Expose' #2 Computer Decision Submission

12. Assignment 4: Expose' #2 (Tektronix) Case Discussion

Part 2: Valuing Cash Flows Across Borders

13 & 15. Shareholders International Portfolio Risk

Readings: MN, Section VIII

14. MIDTERM (In class)

SPRING BREAK

16. Assignment 6: Royal Dutch and Shell Case Discussion

17& 19. Tax planning and intra-corporate fund flows

Readings: Baker, J. C., *International Finance*, chapter 17: "Taxation of International Operations".

18. Assignment 7: Foreign Company Class Presentation

20. Assignment 8: Hozho Case Discussion

21. International Cost of Capital and Budgeting

Readings: Dumas, B., "Capital Budgeting: an Analytical Framework," classnote, February 2002.

Lessard, D. R., "Incorporating Country Risk in the Valuation of Offshore Projects," *Journal of Applied Corporate Finance*, 1996, 52-63.

Diermeier, J. and B. Solnik, 2001, "Global pricing of equity: analysts and asset managers take note: a corporation's stock price is influenced by international factors in proportion to the extent of the company's foreign activities," *Financial Analysts Journal*, 57, 4, 37-47.

22. Assignment 9: Globalizing Cost of Capital AES Case Discussion

23. International Valuation

24. Assignment 10: LaFarge Acquires BCI Case Discussion -INDIVIDUAL

25. International Corporate Governance

26. Assignment 11: Petrobras Evaluates Pecom Discussion

27. International Financing

Readings: MN, Section IX

28. Assignment 12: Alba's Potline Project Discussion